

Classification of businesses

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What you need to know

By the end of this topic you should be able to:

1. **Classify businesses into the three economic sectors.** Know what the primary, secondary and tertiary sectors do, why businesses are grouped this way (by the kind of activity they carry out), and give examples of businesses in each.
2. **Explain why the sectors change in importance.** Give reasons why a sector grows or shrinks in a country, and describe how the pattern differs between developing and developed economies.
3. **Classify businesses as private sector or public sector** in a mixed economy: who owns and controls them, and what each kind usually aims for.

Types of business organisation (sole traders, partnerships, limited companies) are a separate topic; here you only need to know that they all belong to the private sector.

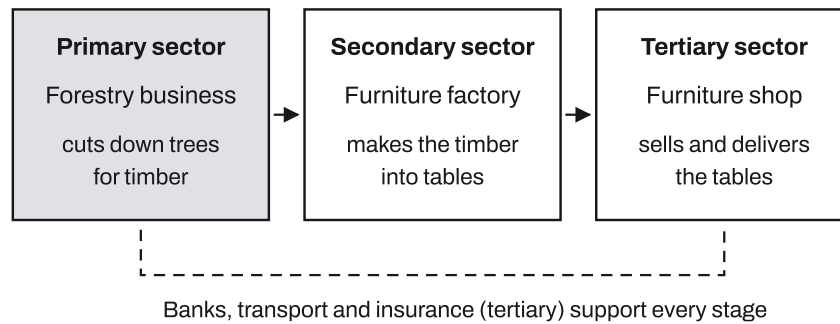
Understand it

Classifying by activity: the three economic sectors

Every business does one of three kinds of work, so it can be put into one of three **economic sectors**. The basis of the classification is the **type of activity**: taking resources from nature, turning them into goods, or providing services.

- The **primary sector extracts natural resources** from the earth, sea or land to produce **raw materials** for other businesses. Examples: farming, fishing, forestry, mining, oil drilling.
- The **secondary sector manufactures** or processes goods, turning the **raw materials** from the primary sector into products. Examples: a furniture factory, a car maker, a bakery that makes cakes, a building firm, an oil refinery.
- The **tertiary sector provides services** to consumers and to other businesses. Examples: shops (retailing), banks, insurance, transport, hotels, restaurants, hairdressers, schools, hospitals, advertising, accountants, lawyers.

Most products pass through all three sectors. This is the **chain of production**:



A business is classified by **what it does**, not by what it sells or how big it is. A bakery that bakes its own bread is secondary (it makes a product); a shop that only resells bread is tertiary. A restaurant is tertiary, even though it cooks food, because what the customer pays for is the service of a meal. Some large businesses work in more than one sector: an oil company may drill (primary), refine (secondary) and run petrol stations (tertiary).

Why the sectors change in importance

The **importance** of a sector is measured by its **share** of the country's output (GDP) or of its workers. As one share rises, another must fall, because together they make 100%. The pattern usually moves in one direction as a country develops:

A low-income, developing economy



Primary 60% · Secondary 15% · Tertiary 25%

An industrialising economy



Primary 30% · Secondary 35% · Tertiary 35%

A high-income, developed economy



Primary 5% · Secondary 20% · Tertiary 75%

Primary sector
 Secondary sector
 Tertiary sector

Each bar is 100% of the country's workers.

- **Developing economies** have a large primary sector: most people work in farming, fishing or mining, often with little machinery.
- As a country **industrialises**, factories are set up and the **secondary sector** grows.
- In **developed economies** the **tertiary sector** is by far the largest, and the primary sector employs very few people.

Reasons the primary sector shrinks:

- **Depletion of natural resources:** mines, oil fields and fishing grounds run out, so less can be extracted.

- **Mechanisation:** machines on farms and in mines do the work of many people, so fewer workers are needed (the output may even stay the same).
- **Cheaper imports:** raw materials bought from abroad cost less than producing them at home.
- **Less government support** for farming and mining, or more support for other sectors.
- **People move to towns and cities** for better-paid jobs in factories and services.

Reasons the secondary sector grows (industrialisation):

- New factories are set up, often by **multinational companies** attracted by low wages or government grants, creating manufacturing jobs.
- The country starts **processing its own raw materials** (making chocolate from its own cocoa) instead of exporting them unprocessed.
- More demand for manufactured goods, at home or as **exports**.

Reasons the secondary sector later shrinks in developed economies (deindustrialisation):

- Manufacturing moves to countries with **lower costs** (cheaper labour), and the goods are imported instead.
- **Automation** means factories need far fewer workers.

Reasons the tertiary sector grows:

- **Rising incomes:** as people become richer, they spend a larger part of their income on services such as holidays, restaurants, entertainment, banking and healthcare.
- **Better education and skills:** workers can do skilled, higher-paid service jobs.
- **New technology** creates new services (online shopping, apps, internet banking).
- **Tourism** and **globalisation** increase demand for transport, hotels and international finance.

A sector can shrink **as a share** even when its own output is growing: if a country's GDP doubles but its farming output stays the same, farming's share halves.

Changes in the sectors affect businesses and workers. When the primary sector shrinks, farm workers and miners may lose their jobs and need retraining; businesses in growing sectors find more customers but may compete for skilled workers.

Classifying by ownership: private and public sector

A **mixed economy** has two groups of organisations:

- The **private sector** is the part of the economy **owned and controlled by individuals** or groups of individuals (such as shareholders). Most private sector businesses aim to **make a profit**. Sole traders, partnerships, private and public limited companies, franchises, joint ventures and social enterprises are all in the private sector.
- The **public sector** is the part of the economy **owned and controlled by the government** (the state). Its organisations usually aim to **provide a service** for everyone, or keep prices affordable, rather than make a profit. Examples: state schools and hospitals, the police and armed forces, and state-owned businesses

such as a national railway or water company.

Almost every country today is a mixed economy. The government often runs services that everyone needs but some people could not afford, such as health and education, or that would be hard to charge for, such as defence and street lighting. Private businesses make most other products, competing for customers.

A public limited company is in the private sector. "Public" in its name means anyone can buy its shares, not that the government owns it.

Key facts and formulas

This topic has no formula list in the exam. "Learn it" means you must remember it.

Fact	Status
Primary sector: extracts natural resources to produce raw materials	Learn it
Secondary sector: manufactures goods from raw materials (from the primary sector)	Learn it
Tertiary sector: provides services to consumers and other businesses	Learn it
Private sector: owned and controlled by individuals (usually for profit)	Learn it
Public sector: owned and controlled by the government (the state)	Learn it
Primary + secondary + tertiary shares = 100% of output or workers; a change in a share is in percentage points	Learn it
As a country develops, the primary share falls and the tertiary share rises	Learn it

How to do it

We have tagged 10 questions on this topic (2021–2025), nine on Paper 1 and one on Paper 2. One question has two parts on it of different types, so the counts add to 11. The topic is always one part of a longer 20-mark question, and a sector named in the case ("GTB operates in the tertiary sector") is also a detail you can use for application marks in the other parts.

Question type	Questions
Define a sector term (primary, secondary, tertiary, private, public)	8
Explain reasons for the changing importance of the sectors	2

Question type	Questions
Identify services provided by the tertiary sector	1

The mark scheme codes are **k** (knowledge: a correct point), **app** (application: a detail from the case or the data), **an** (analysis: a developed consequence) and **eval** (evaluation: a justified judgement).

1. Define a sector term (8 questions)

Always the 2-mark opening part: "Define 'secondary sector'." 2 marks for a full definition, 1 for a partial one. A full definition has **two ideas**: what the sector does, plus the detail that makes it exact.

Term	Full definition (2 marks)	Only 1 mark
Primary sector	businesses that extract natural resources to produce raw materials for other businesses	"uses natural resources"
Secondary sector	businesses that manufacture goods from raw materials (supplied by the primary sector)	"makes products"
Tertiary sector	businesses that provide services to consumers and other businesses	"provides services"
Private sector	the part of the economy owned by individuals or companies (usually for profit)	"not run by the government"
Public sector	the part of the economy owned by the government / state	"run by the government"

- **Examples earn nothing.** "Farming and fishing" is not a definition of the primary sector.
- **Private and public are about ownership.** Say **who owns** it: "owned by individuals", not just "privately owned" or "run by individuals".
- **Don't describe a type of business.** Features of sole traders or limited companies are not a definition of the private sector.

2. Explain reasons for the changing importance of the sectors (2 questions)

Paper 1 part (d), 6 marks (0450/12/O/N/23 Q3): a table gives each sector's share of GDP or employment in two years, and you explain two reasons why one sector's importance has changed, using the figures. For each reason:

1. **Name the reason (k):** depletion of natural resources, mechanisation, industrialisation (new factories), better education, cheaper imported raw materials, a change in government support.
2. **Quote the data (app):** a figure from the table that fits the reason, such as "the primary sector fell from 60% to 20%" or "the tertiary sector rose to 50%". Use a **different** figure for each reason.
3. **Explain how it changes the sector (an):** "so fewer workers are needed on farms", "so workers leave for better-paid service jobs".

Paper 2 part (a), 8 marks (0450/21/M/J/21 Q1): you explain four reasons why the three sectors have grown or shrunk compared with each other in a country. There is no case data and no application mark: each reason earns 1 and its explanation 1 more. Say **which sector** grows or shrinks and **why**:

- natural resources run out (or are newly discovered) → primary shrinks (or grows);
- mechanisation in farming and mining → fewer primary workers;
- industrialisation, or processing raw materials at home → secondary grows;
- rising incomes (economic growth) → more spending on services → tertiary grows;
- more demand for manufactured goods, or more exports → secondary grows;
- manufacturing moves abroad to cheaper countries → secondary shrinks (deindustrialisation);
- globalisation, tourism, government policy, or pressure groups closing polluting mines and factories.

On Paper 1 examiners did not credit the word "deindustrialisation" on its own: explain what happened and why.

3. Identify services provided by the tertiary sector (1 question)

You name two kinds of service that tertiary businesses offer (**0450/12/F/M/25 Q4**): 1 mark each; only the first two answers count. Name the **service**, not a business: banking, insurance, retailing, transport, hotels, tourism, restaurants, hairdressing, education, healthcare, advertising, accountancy, legal services, entertainment. "McDonald's" or "a shop called ZPR" earns nothing.

Worked examples

Example 1

(a) Define "primary sector". [2]

(b) Define "public sector". [2]

(a) The primary sector is made up of businesses that extract natural resources from the earth or sea (1) to produce raw materials used by other businesses (1).

(b) The public sector is the part of the economy owned (1) by the government or the state (1).

Example 2

For each business, state its economic sector and whether it is in the private or public sector. [4]

(a) A state-owned railway that carries passengers. (b) A family-owned tea plantation. (c) A public limited company that makes mobile phones. (d) A government-owned coal mine.

(a) Tertiary (transport is a service), public sector (1). **(b)** Primary (growing and picking tea), private sector (1). **(c)** Secondary (manufacturing), private sector: it is owned by its shareholders, not the government (1). **(d)** Primary (extracting coal), public sector (1).

Example 3

Country Y has a mixed economy. The table shows the percentage of Country Y's workers in each economic sector.

Year	Primary	Secondary	Tertiary
2005	50%	20%	30%
2025	18%	27%	55%

Explain two reasons why a larger share of Country Y's workers now have jobs in the tertiary sector. Use the table in your answer. **[6]**

Reason 1. Incomes in Country Y have risen (k). Families with more money left after buying essentials spend it on services such as restaurants, holidays and banking, so service businesses hire more staff, which is why the tertiary share rose from 30% to 55% (app) (an).

Reason 2. Farms and mines have introduced more machinery (k). One machine, such as a harvester, does the work of many farm workers, so people leave the land to look for work in shops, hotels and transport; the primary share fell from 50% to 18% (app) as these workers moved into services (an).

Each reason earns k + app + an, with a different figure from the table each time.

Example 4

Explain four reasons why the tertiary sector has become more important in many countries. **[8]**

- Rising incomes** (1). As economies grow, people have more income left after buying essentials and spend it on services such as restaurants, holidays and healthcare, so tertiary businesses sell more and employ more people (1).
- Better education** (1). More workers have the skills for jobs in banking, teaching or medicine, so they move out of farming and factory work into better-paid services (1).
- New technology** (1). The internet creates new services such as online shopping, streaming and mobile banking, adding businesses and jobs to the tertiary sector (1).
- Manufacturing moves abroad** (1). Factories relocate to countries with cheaper labour and goods are imported instead, so the secondary sector shrinks and services make up a larger share of what is left (1).

Common mistakes

- Giving examples instead of a definition.** Examiners report that listing farming and mining, or naming shops, earns no marks for defining a sector. Say what the sector does.
- Half a definition.** "Makes products" or "provides services" earns only 1 mark. Add the second idea: made from raw materials; services to consumers and other businesses.

- **Mixing up the sectors.** Examiners see the primary sector confused with the secondary. Primary takes from nature; secondary makes things from what primary produces.
- **Confusing the public sector with a public limited company.** A plc is owned by shareholders, so it is in the private sector.
- **Defining the private sector by control or "privately owned".** Say who owns it: individuals or groups of individuals. Don't describe sole traders or limited companies instead.
- **Describing the sectors instead of explaining the change.** For "reasons for changing importance", strong answers give a cause (resources running out, higher incomes) and link it to the sector that grew or shrank. Examiners note weak answers just say what each sector does.
- **Answering for the wrong sector.** When the case says a business is in the tertiary sector, points about production, output or raw materials do not fit it and are not credited.
- **Using the same figure twice.** In a data question each reason needs its own figure from the table.

How to get the marks

- **Define:** two ideas for 2 marks. No examples.
- **Identify:** short answers, no explanation; only the first ones you write are marked, so don't list extras.
- **Explain (Paper 1, 6 marks):** for each of two points, k + app + an. "Using the data" means the application mark comes **only** from quoting the table: write the figures and what changed ("fell from 60% to 20%").
- **Explain (Paper 2, 8 marks):** four reasons, each with a "so..." or "because..." sentence saying which sector changes and how. No application marks are available, so keep it general.
- **Use the sector in the case.** When the stem says the business is in the tertiary (or secondary, or primary) sector, it is a context word for application marks elsewhere, and it tells you which answers make sense (a hairdresser has no factory).
- **Percentages of a whole.** Sector shares add up to 100%; describe a change in the figures the table gives (from 60% to 20%, a fall of 40 percentage points).

Quick check

1. State the economic sector of each: a gold mine, a car factory, an insurance company, a fishing fleet.
2. Define "secondary sector". [2]
3. A country's share of output is primary 40%, secondary 20%, tertiary 40% in 2000, and primary 25%, secondary 35%, tertiary 40% in 2020. Which sector grew, by how many percentage points, and what is the most likely reason?
4. Is a public limited company in the public sector? Explain.
5. A new hotel is opening in a town. Identify two tertiary sector services the hotel would buy from other businesses. [2]

Answers

1. Gold mine: primary. Car factory: secondary. Insurance company: tertiary. Fishing fleet: primary.
2. Businesses that manufacture or process goods (1) from the raw materials produced by the primary sector (1).
3. The secondary sector grew from 20% to 35%, a rise of 15 percentage points, while the primary sector fell by the same 15 points. The most likely reason is industrialisation: new factories are processing raw materials into goods, taking workers and output from farming and mining.
4. No. It is owned by its shareholders, who are private individuals and organisations, so it is in the private sector. "Public" means its shares can be bought by the public.
5. Any two services, such as insurance for the building (1) and advertising (1); also banking, laundry or transport. Names of businesses are not accepted.

Past questions to try

- 0450/12/F/M/24 Q1: part (b), defining the secondary sector.
- 0450/12/M/J/24 Q2: part (a), defining the tertiary sector.
- 0450/13/O/N/22 Q1: part (a), defining the primary sector.
- 0450/13/O/N/24 Q3: part (a), defining the private sector.